

Setting Goals and Staying Focused

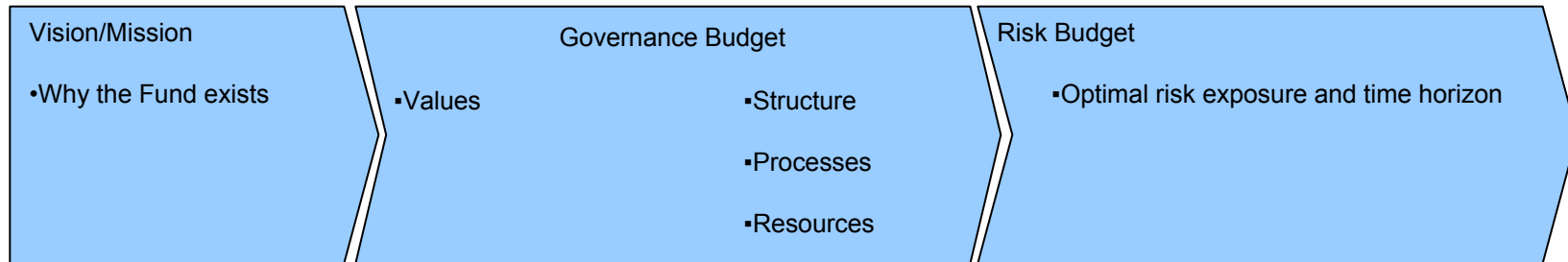
Presentation to ASFONZ
25 March 2009

Adrian Orr
Chief Executive Officer

Being a long-term investor?

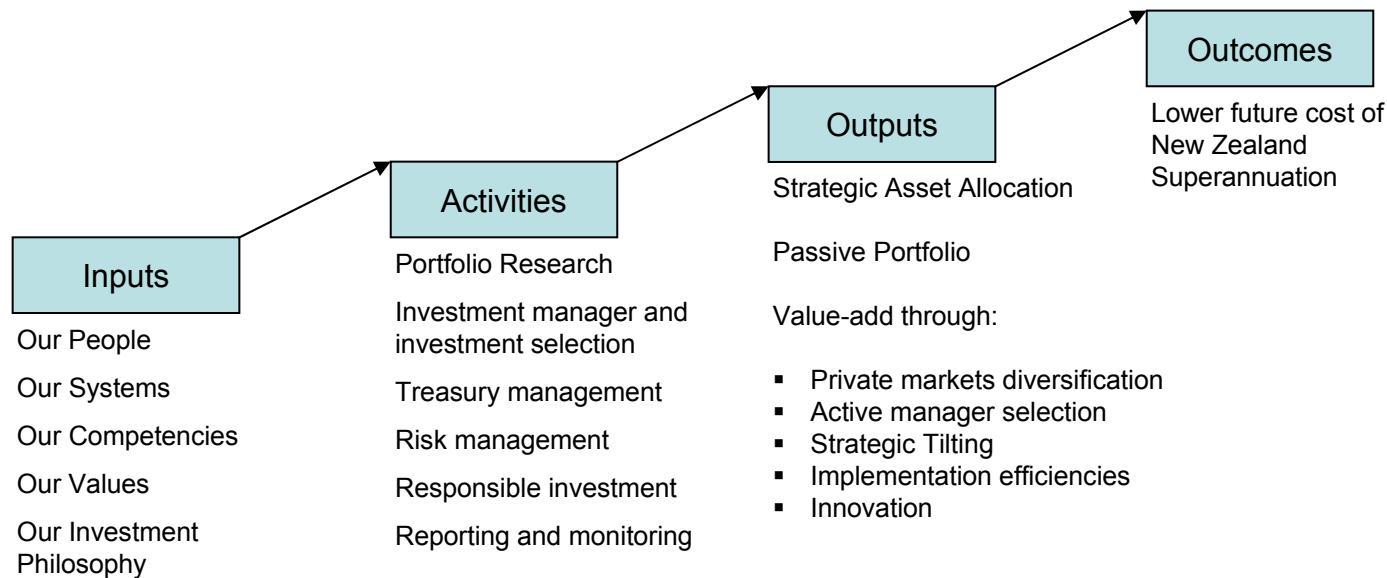
- A clear purpose
- Discipline to stay the course
- Deliberate financial exposure
- Able to communicate the challenges to key stakeholders

Creating discipline



Source: Watson Wyatt Research

Mission: To manage the Fund in a manner that best enables future governments to provide retirement incomes to New Zealanders



**A Great Team
Building the Best
Portfolio**

Our competencies: Quality decisions; Specific knowledge; Employer of choice; Innovative

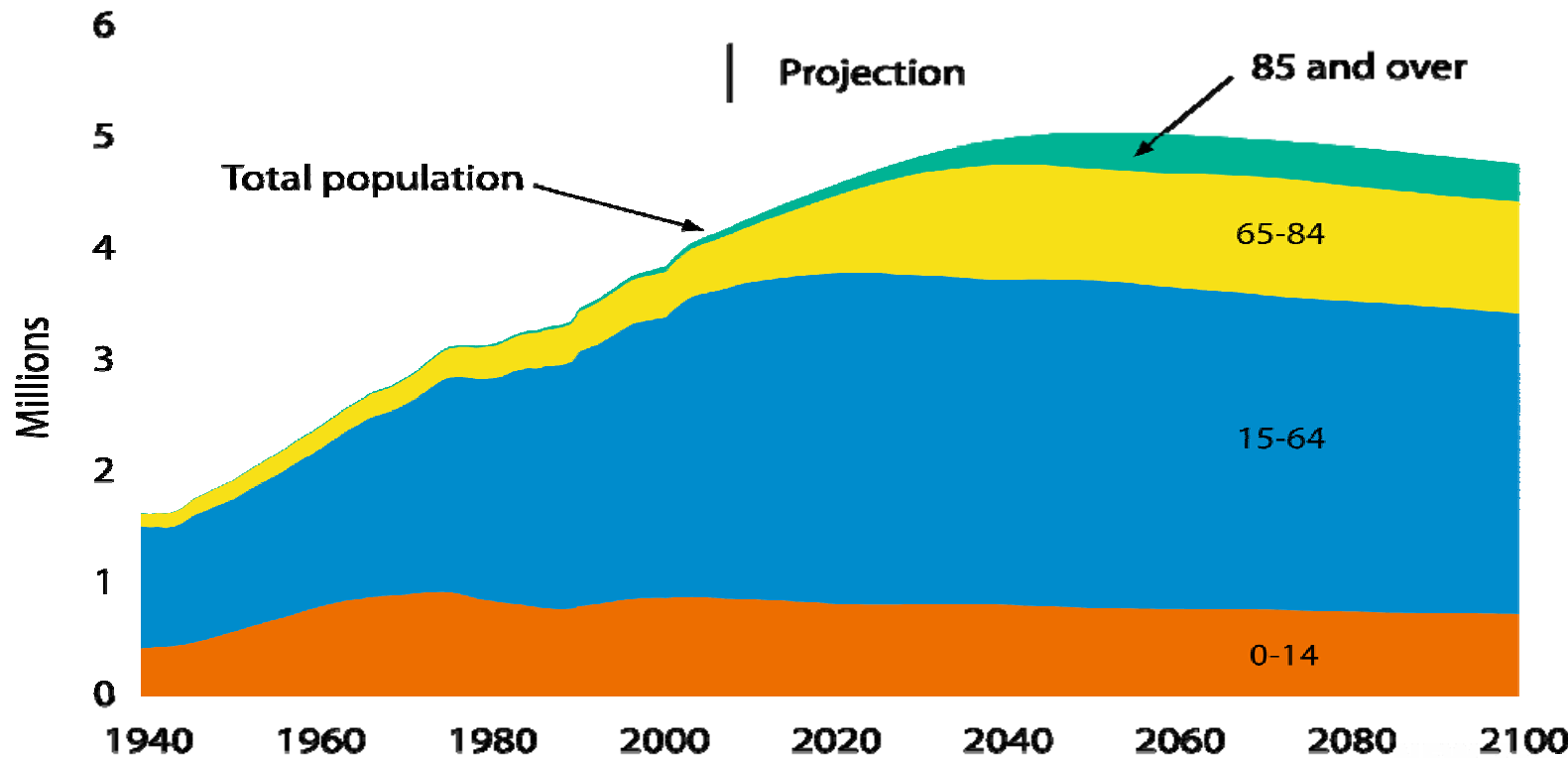
Our values: Integrity; Inclusiveness; Innovation;

Our endowments: The Fund's sovereign status, liquidity profile, investment horizon and breadth of mandate;

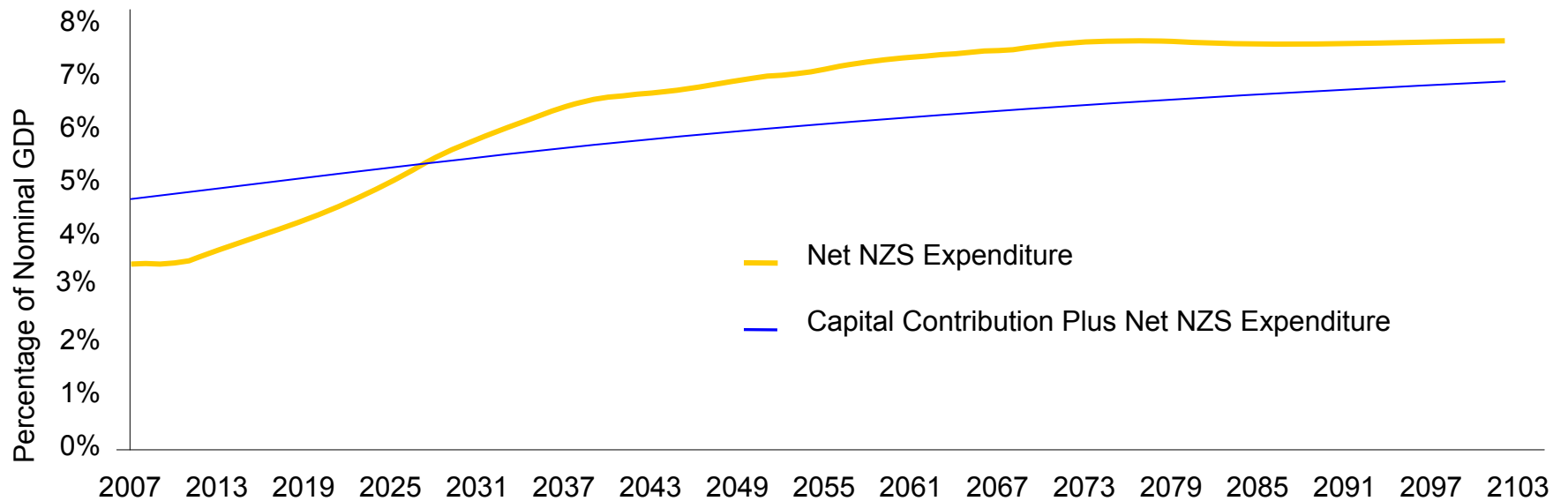
Our investment philosophy: Comes from matching our endowments with our investment beliefs

A Clear Purpose: the Superannuation Buffer Fund

Source: New Zealand Treasury



A Clear Purpose: Smoothing superannuation costs over time



Source: New Zealand Treasury

Risk and Return Goals

Return Goals?	Risk Goals?
<ul style="list-style-type: none"> Returns over cash Returns over CPI Peer group measures Relative SAA measures Contribution to inter-generational GDP per capita 	<ul style="list-style-type: none"> Volatility (Standard deviations) Semi-variance (downside only) Tracking Errors vs. benchmarks Value at Risk Probability of capital loss Expected shortfall Extreme Value Theory measures
Combined Goals?	
<ul style="list-style-type: none"> Maximising returns at an appropriate risk Risk adjusted return over minimum risk return Success in smoothing inter-generational GDP 	

Source: Watson Wyatt Research

Time Horizons

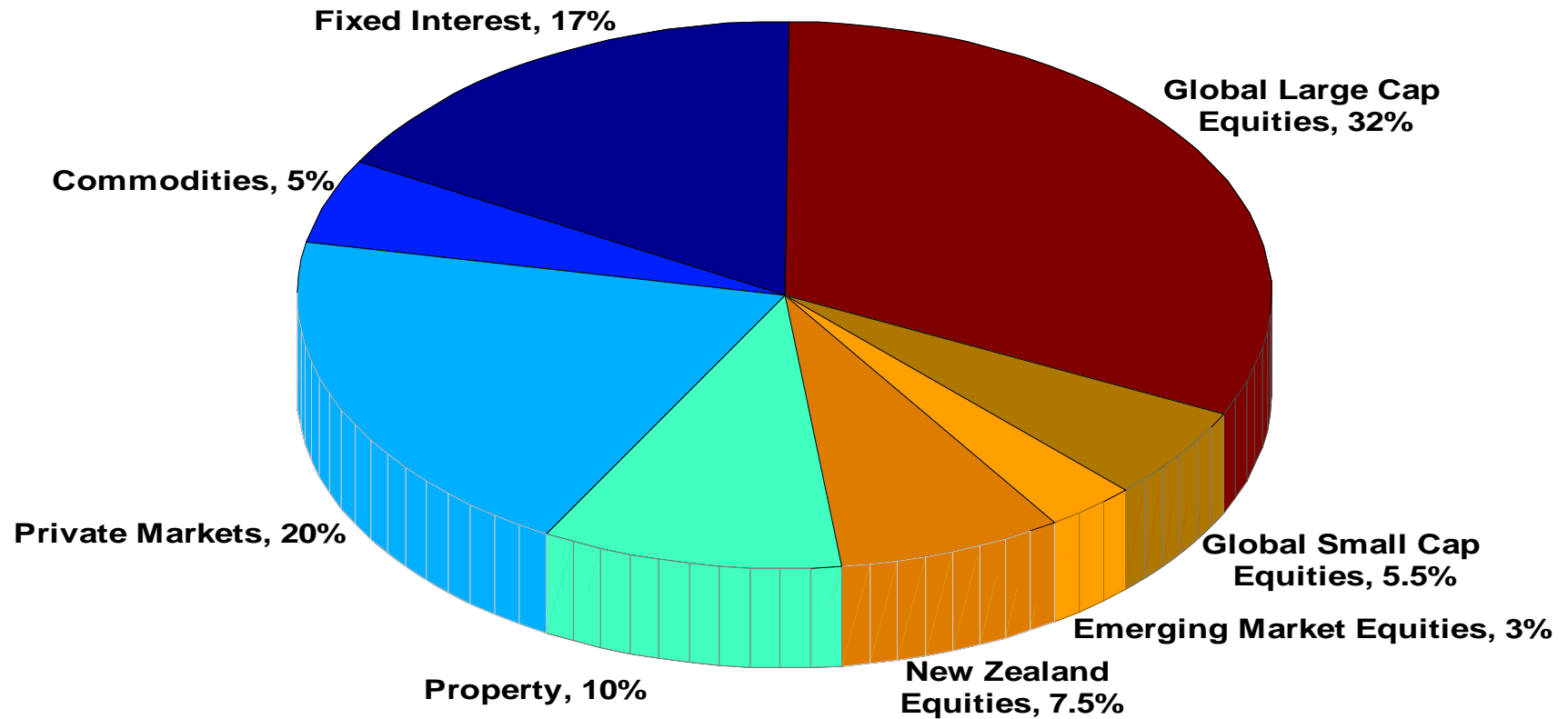
- The investment goal can be summarised as ‘Optimising long-term, satisficing short-term’
- Different time horizons have different significance.

Horizon Period	Why is it important?	Overall importance
3 months	Manager performance	?
1 year	Financial reporting interval in the Fund accounts	?
3-10 years	The central period for 'success' for the Fund	?
> 20 years	Consistent with the longer term mandate of the Fund	?

Source: Watson Wyatt Research

Strategic Asset Allocation

Fund by Asset Class (%)



Governance Budget from Good to Great

- Good to great :
 - Strong **investment beliefs** commanding Fund-wide support that align with goals and informs all investment decision-making.
 - Highly investment **competent** management function tasked with clearly **specified responsibilities**, and accountabilities to the Board
 - Frame the **investment philosophy and process by reference to the institution's comparative advantages** and disadvantages (*which features in the Fund's Statement of Intent*)
 - Working within a learning culture which deliberately encourages change and challenges the commonplace assumptions of the industry.

Clark / Urwin Study of
top 10 global funds
cherry-picked by results
and reputation

They shared 12 best-
practice factors central
to their success

Our Investment Philosophy

We are a long-term investor that is building the best (i.e., most cost-effective and fit for purpose) portfolio.

We un-bundle risk and accept only those risks that enhance our overall portfolio efficiency.

We invest in a manner that best exploits a liquidity premium, and we put effort and resource into active management where we have core competencies.

When outsourcing, we manage principal-agent risks through contracts and appropriate fees and incentives.

When allocating capital, we are fully aware of all financial and opportunity costs, and monitor all activities against relevant benchmarks.

We act as a responsible investor, promoting positive environmental, social and governance behaviour as a shareholder, and we look to be rewarded for this effort.

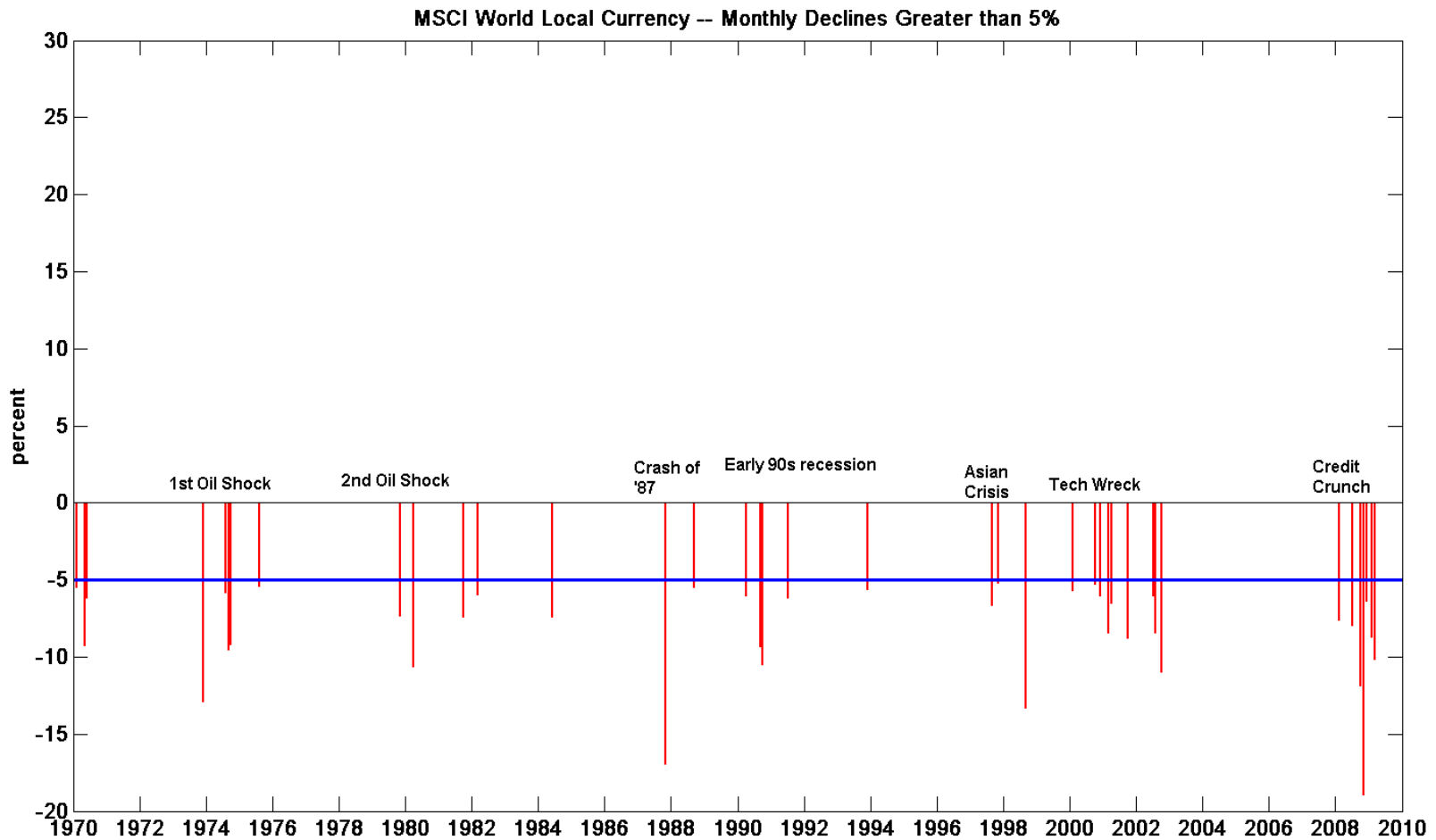
We behave consistent with our values in relentless pursuit of our vision.

What are the opportunities?

Issue	Reaction	Opportunity / Threat
Impact on financial markets	Chronically weak banking sector and systematic de-leveraging	Tactical and strategic
	Risk aversion of investor base and flight to quality in asset allocation	Markets have repriced risk
	Distressed asset opportunities	Distressed assets Threat issue also
	Favouring of uncorrelated assets - appraisal values slower to re-price	Alternative assets
Risk	Risk models not suited to jumps	New risk models Threat issue also
	Increasing attractions of building a macro overlay framework	New risk models
Investment Managers	Evidence of overcrowding and capacity issues	Review of quant / leverage
	Increased manager event risk from weak capital / business model or compliance or risk management disciplines	Refinement of manager profile
	Time horizon – more valuable	Long-term investor profile

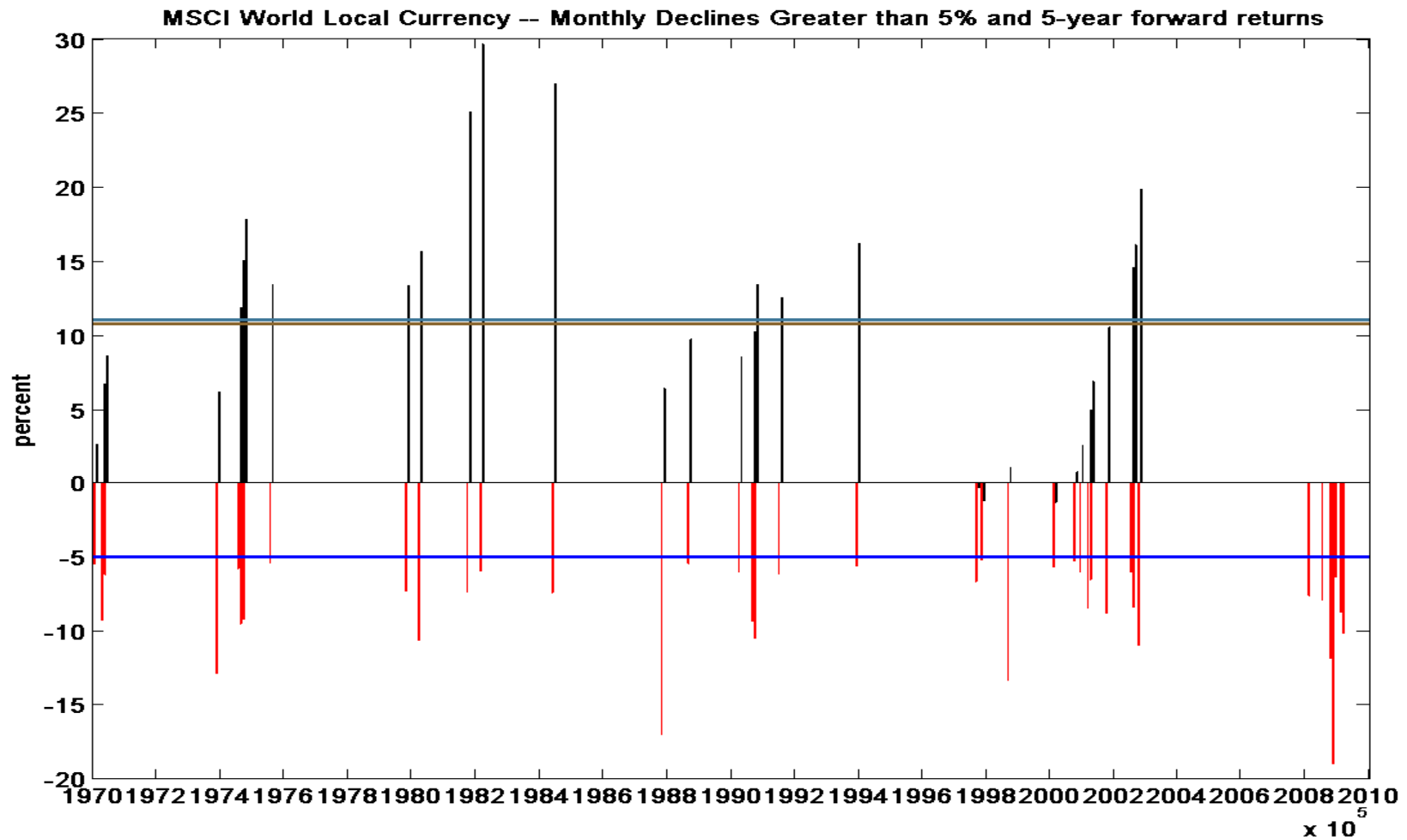
Source: Watson Wyatt Research

The Financial Crisis in perspective Up to March 2009



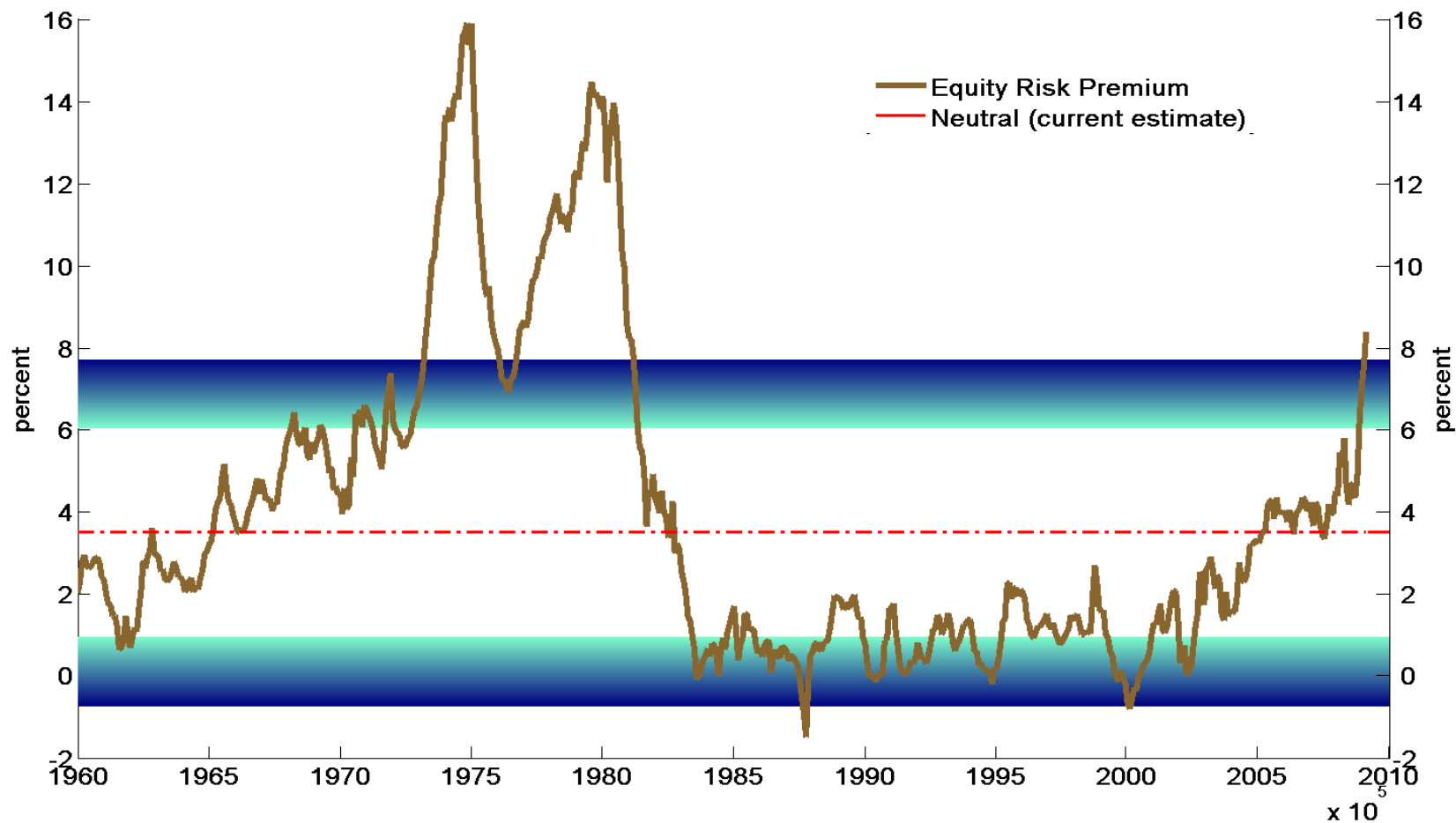
The Financial Crisis

Five years forward



Opportunities for a long-term investor

Tilting the portfolio: Developing Signals



Summary: Principles of Long-Term Investment at the Fund

- **A clear purpose:** smoothing superannuation costs over time
- **Discipline to stay the course:**
 - Well-defined organisational and accountability structure
 - Structure strategies and incentives to be invariant to short-term market-movements
- **Deliberate financial exposure:**
 - Diversification through the SAA
 - Maintain flexibility to evaluate and buy into new investment opportunities...
 - ... while undertaking thorough diligence and maintaining risk commitments
- **Communication to key stakeholders**